To the Mayor and Members of the City Council

October 25, 2016

SUBJECT: FINANCIAL MANAGEMENT POLICY STATEMENTS - REVISED GAS RELATED REVENUE POLICY

The purpose of this Informal Report is to outline financial policy changes and associated actions that staff will be recommending to the City Council.

On November 1, 2016, the City Council will be presented with a Mayor and Council Communication (M&C) that would continue the Fiscal Year (FY) 2016 Financial Management Policy Statements (FMPS) in effect for 2017 with the revisions to the gas-related revenues and expense/expenditure policy as detailed below. The proposed revisions are the result of staff's comprehensive review of the FMPS. Other recommended changes and additions to the FMPS are currently being finalized and will follow in the coming weeks.

The policy governing gas-related revenues and expense/expenditure was last revised on September 15, 2015 (M&C G-18552). This policy is intended to establish guidelines for the management of certain gas-related revenue and associated expenditures/expenses in order to ensure reliable, equitable, and diversified allocation and use of these funds. The goal for this revenue source is to strike a balance between current and future needs that are funded from a non-recurring and unpredictable resource. The scope of the policy encompasses: (i) ad valorem tax on mineral valuations, (ii) natural gas development lease revenues from under City-owned property, (iii) license or easement fees paid to install gas gathering pipelines under City-owned property, and (iv) Fort Worth Permanent Trust Fund income.

Recommended policy changes include substantive and non-substantive revisions which are detailed below.

<u>Substantive changes to the Policy consist of:</u>

1. Addition of a "Purpose" statement to articulate the guiding principles that have been used for allocating revenues and expense/expenditures for these funds since their inception;

2. Insertion of a "Scope" section to clearly define the revenues this policy encompasses;

3. Amendment of the park bonus revenue section to allow the one-time lease bonus payments to be allocated to the entire park system rather than to the specific park from which gas was produced in order to allow all City parks to benefit equitably;

4. Revision of the section addressing revenue from restricted parks to clarify that the general restricted park rule also applies to all non-lease revenue generated at the Fort Worth Nature Center and Refuge;

5. Reallocation of gas-related revenues to the Water and Sewer Capital Projects Fund instead of the Utility Street Reconstruction Capital Improvement Projects Fund to reflect the current practice used for managing revenues and expenditures; and

6. Reallocation of gas-related revenues to the Golf Capital Projects Fund instead of the Golf Gas Lease Debt Service Fund to reflect the closing of this debt service fund, which is consistent with the reclassification of Golf as a special revenue fund rather than an enterprise fund (M&C G-18515).

Non-substantive Changes to the Policy Include:

1. Revision of format to mirror recently adopted reserve policy appendices;

2. Updated language regarding the gas trust/endowment (the Fort Worth Permanent Fund) to reflect the language of the executed trust instrument, as amended (M&C G-18538);

3. Updated language regarding Lake Worth and Nature Center Funds to provide enhanced clarity without making substantive changes; and

4. Reorganization and editing of allocation lists to offer a more logical progression and enhanced internal cross-references.

Financial Actions Required to Implement Revised Policy:

The M&C will also recommend that the City Council approve actions to implement the revised policy. Specifically the M&C will recommend (1) reallocation of existing, unencumbered park bonus receipts from specific parks for which they were received to the park system as a whole; (2) delegation of authority to staff to effect transfers, make accounting entries, and take all other actions necessary to close the Utility Street Reconstruction Capital Improvement Projects Fund and the Golf Debt Service Fund; and (3) transfer of any balance remaining in those funds at their closing to a corresponding capital project fund

The rationale for the recommended policy changes and their implementation follows.

Park Bonus

Under the current policy, all bonus revenue from gas leases associated with park land is designated for use for capital improvements at the park from which the bonus is generated. The M&C proposes a revised policy that changes the allocation of bonus revenue prospectively so that future revenue can be used within the overall park system and resources can be accumulated to complete larger scale projects. In addition, the M&C proposes implementing the policy change retrospectively by reallocating existing unencumbered park bonus revenues to the entire park system.

Both the policy change and its application to the remaining unencumbered balance are in response to changes that have occurred in the market for natural gas and the City's related revenues over the last several years. Since the inception of the City's gas lease program in 2004, a total of $16,718,079 in park bonus revenue has been received. Of that amount only $108,000 has been received since the beginning of Fiscal Year 2014, with no bonus revenue receipts accruing in FY2016.

Because bonus revenues are negligible, staff is recommending that they be allocated to the entire park system where they can be aggregated to make a significant impact on the Park and Recreation Capital Improvement Plan. Staff is also recommending the policy change be applied to reallocate existing unencumbered park bonus receipts.

SUBJECT: FINANCIAL MANAGEMENT POLICY STATEMENTS - REVISED GAS RELATED REVENUE POLICY

Only $419,100 in bonus receipts remains unencumbered, corresponding to a total of 39 parks. In light of the minimal amount that is available for each of the "host" parks, staff recommends the dollars be pooled to pay for larger capital improvements that have a greater impact and benefit to the citizens.

Utility Street Reconstruction Fund

Under the current policy, one fourth of gas-related fee revenue generated by the Water and Sewer System is allocated to the Utility Street Reconstruction Capital Improvement Projects Fund. That Fund was created and used to provide a dedicated funding source for pavement related expenses for water projects. With the implementation of comprehensive Capital Improvement Plans, those expenses are now factored into the Water Department's overall capital plan, and a separate, dedicated funding source is no longer needed.

Staff recommends the money previously allocated to the Utility Street Reconstruction Capital Improvement Projects Fund be programmed to the Water and Sewer Gas Lease Capital Projects Fund. As revised, the allocation of Water and Sewer's gas-related revenues would be:

1. Seventy-five percent (75%) to the Water and Sewer Gas Lease Capital Projects fund; and
2. Twenty-five percent (25%) to the Water and Sewer System Endowment Gas Lease Fund.

Staff also recommends that any remaining balance in the Utility Street Fund at the time of closing be transferred to the Department's gas capital projects fund, which is consistent with the revised policy.

Golf Debt Fund

Under the present policy, a portion of gas-related revenues generated by the City's golf courses is allocated to a Golf Gas Lease Debt Service Fund. When Golf was an Enterprise Fund (Proprietary) that allocation was consistent with accounting rules, as the program was expected to operate like a private business and fully cover its own debt and operating costs.

However, in Fiscal Year 2015, the City Council acknowledged that profound changes in market conditions meant that the golf program could no longer be self-sustaining, and the Golf Fund was transitioned to a Special Revenue Fund (Governmental) via M&C G-18515. As a governmental fund, Golf's remaining debt was moved into and is being paid from the City's General Debt Service Fund, which derives its revenue from property taxes. Therefore, a separate Golf Gas Lease Debt Service Fund is no longer needed.

As a result, the revised policy that is being recommended allocates one-hundred percent (100%) of the gas-related revenue from the City's golf courses to the Golf Gas Lease Capital Projects Fund. The M&C also recommends that any balance at the closing of Golf's debt service fund (currently projected to be

SUBJECT: FINANCIAL MANAGEMENT POLICY STATEMENTS - REVISED GAS RELATED REVENUE POLICY

approximately $536,787) be transferred to the program's gas capital project fund, which is consistent with the revised policy.

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517

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